

Appendix A: Bipartisan Policy Center (BPC) Tax Reform

Quick Summary

The Bipartisan Policy Center (BPC) Tax Reform Plan represents a radical simplification of the current tax code. In fact, to best explain it, forget what you know about the complexities of the current tax system, and start fresh. Outlined below are the core elements of the plan:

- A **two-bracket income tax with rates of 15 percent and 27 percent**. Because there is no standard deduction or personal exemptions, the 15-percent rate applies to your 1st dollar of income.⁸⁴
- The **corporate tax rate will be set at 27 percent**, instead of the current 35-percent level.
- Capital gains and dividends will be taxed as **ordinary income (with a top rate of 27 percent)**, excluding the first \$1,000 of realized net capital gains (or losses).⁸⁵
- Introduce a **6.5-percent broad-based Debt Reduction Sales Tax (DRST)**, phased-in over two years.⁸⁶
- To replace the overly-complex Earned Income Tax Credit (EITC) and to help offset the effects of the DRST and elimination of personal exemptions, the standard deduction and the child credit, the BPC Plan will establish:
 - A flat **refundable per child tax credit of \$1,600** (higher than current law); and
 - A **refundable earnings credit**⁸⁷ similar to the current Making Work Pay credit, but substantially higher.
- Instead of the current system of itemized deductions, which disproportionately subsidizes the housing consumption and charitable giving of upper-income taxpayers, the BPC Plan will:
 - Provide a **flat 15-percent refundable tax credit for charitable contributions** and for up to \$25,000 per year, not indexed, **mortgage interest on a primary residence**.
 - Eliminate the deduction for state and local taxes.
 - Provide a flat, **15-percent refundable tax credit** or a deduction (for those in the higher bracket) **for contributions to retirement saving accounts** up to 20 percent of earnings or a maximum of \$20,000.

⁸⁴ The 27-percent rate applies approximately to income above \$51,000 for single filers and \$102,000 for couples.

⁸⁵ \$500 for singles and heads of household.

⁸⁶ The DRST will start at 3 percent in 2012, and then increase to 6.5 percent by 2013.

⁸⁷ The refundable earnings credit is equal to 21.3 percent of the first \$20,300 of earnings.